

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 30, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 30, 2008 Through April 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Henderson County Sheriff for the period April 30, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$19,846,806 for the districts for 2008 taxes, retaining commissions of \$602,550 to operate the Sheriff's office. The Sheriff distributed taxes of \$19,217,252 to the districts for 2008 taxes. Taxes of \$84 are due to the districts from the Sheriff and refunds of \$161 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts and Disbursements

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Sandy L. Watkins, Henderson County Judge/Executive

Honorable Ed Brady, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the Henderson County Sheriff's Settlement - 2008 Taxes for the period April 30, 2008 through April 15, 2009. This tax settlement is the responsibility of the Henderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Henderson County Sheriff's taxes charged, credited, and paid for the period April 30, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Sandy L. Watkins, County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts and Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 10, 2010

HENDERSON COUNTY
ED BRADY, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 30, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,234,900	\$ 2,050,769	\$ 8,901,719	\$ 2,325,155
Tangible Personal Property	384,726	412,920	1,050,198	1,245,282
Fire Protection	1,104			
Increases Through Exonerations	142	833	566	147
Franchise Taxes	243,553	212,982	720,646	
Additional Billings	5,075	4,493	20,847	5,650
Unmined Coal - 2008 Taxes	59,150	53,676	235,600	61,156
Unmined Coal - 2003-2007 Taxes	7,185	6,376	29,196	7,852
Oil and Gas Property Taxes	38,965	35,332	155,199	40,286
Limestone, Sand and Mineral Reserves	4	4	18	4
Penalties	10,963	10,040	42,929	12,080
Gross Chargeable to Sheriff	<u>2,985,767</u>	<u>2,787,425</u>	<u>11,156,918</u>	<u>3,697,612</u>
<u>Credits</u>				
Exonerations	6,727	7,165	24,059	5,384
Discounts	47,210	44,396	177,273	63,192
Delinquents:				
Real Estate	48,727	44,640	194,051	50,371
Tangible Personal Property	9,506	8,306	25,672	19,781
Unmined Coal - 2008 Taxes	45	41	180	47
Unmined Coal - 2005 Omitted	4	3	18	5
Franchise Taxes	248	216	666	
Minimum Bills (Under \$10)	297	1,158	1,039	489
Total Credits	<u>112,764</u>	<u>105,925</u>	<u>422,958</u>	<u>139,269</u>
Taxes Collected	2,873,003	2,681,500	10,733,960	3,558,343
Less: Commissions *	<u>122,390</u>	<u>113,964</u>	<u>214,679</u>	<u>151,517</u>
Taxes Due	2,750,613	2,567,536	10,519,281	3,406,826
Taxes Paid	2,748,561	2,564,526	10,511,306	3,392,859
Refunds (Current and Prior Year)	<u>2,038</u>	<u>2,979</u>	<u>7,943</u>	<u>14,121</u>
Due Districts or		**		
(Refunds Due Sheriff)	<u>\$ 14</u>	<u>\$ 31</u>	<u>\$ 32</u>	<u>\$ (154)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
ED BRADY, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period April 30, 2008 Through April 15, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	9,102,846
2% on	\$	10,733,960

** Special Taxing Districts:

Library District	\$	8
Health District		(7)
Extension District		7
Highland Creek		23
		<hr/>

Due Districts or
(Refund Due Sheriff)

\$	31
	<hr/> <hr/>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2008 through April 15, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 13, 2009 through July 31, 2009.

Note 4. Interest Income

The Henderson County Sheriff earned \$9,344 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$57,698 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Sandy L. Watkins, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Henderson County Sheriff's Settlement - 2008 Taxes for the period April 30, 2008 through April 15, 2009, and have issued our report thereon dated May 10, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Henderson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts and Disbursements



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's Settlement - 2008 Taxes for the period April 30, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Henderson County Sheriff's response to the findings identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Henderson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 10, 2010

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
ED BRADY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 30, 2008 Through April 15, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts and Disbursements

Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and disbursement functions of the Sheriff's office because a limited number of employees are available to properly segregate these job duties. The bookkeeper is responsible for the collection of cash, preparation of the daily deposit, and the daily tax collection journal. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district.

Because the bookkeeper handled all receipt and disbursement functions and compensating controls were not implemented, the following occurred:

1. No documentation of reconciling bank statements to monthly reports
2. No documentation of reconciling monthly reports to receipts and disbursements

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the Sheriff separate the duties involving collection of cash, deposit of cash, disbursement of cash, preparation of monthly reports and journals, and reconciliation of the bank statement to the ledgers. If, due to limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide the oversight. The individual providing this oversight should initial source documents as evidence of this review.

Sheriff's Response: Dual signatures on check will happen when new checks are ordered. Also, all financial reports are now signed by the person who prepares, the person who reviews, and by me (Sheriff) for final approval.

